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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 000675

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SUBJECT: ACTING KMT CHAIRMAN P.K. CHIANG ON KMT POLITICS
AND LIEN CHAN'S UPCOMING TRIP TO CHINA

Classified By: AIT Director Stephen M. Young, Reason 1.4 (b/d)

11. (C) Summary: Acting KMT Chairman P.K. Chiang told the Director on March 22 that former KMT Chairman Ma Ying-jeou remains the KMT's strongest hope to retake the presidency in 2008 despite his legal troubles. Chiang believed LY Speaker Wang Jin-pyng will not challenge Ma in the party primary and might accept the vice presidential slot on a Ma-led ticket. Chiang said it is "difficult" to resolve the impasse in the legislature over the defense budget, but recent KMT-DPP negotiations indicated some possibility of progress. KMT Honorary Chairman Lien Chan will focus on promoting cross-Strait economic exchanges during his April visit to the PRC. Chiang said if the KMT returns to power in 2008 it will promote cross-Strait peace, economic liberalization, and domestic political harmony, avoiding socially and politically polarizing issues. End Summary.

KMT Primary Politics

12. (C) Acting KMT Chairman P.K. Chiang (Ping-kun) told the Director on March 22 that former KMT Chairman Ma Ying-jeou remains the KMT's strongest hope to retake the presidency in 2008 despite his indictment for corruption in February. Legislative Yuan Speaker Wang Jin-pyng has only limited public support and will likely not challenge Ma in the primary to avoid a repeat of his embarrassing loss during the 2005 party chairman contest. Cooperation between Ma and Wang, nevertheless, is crucial to the KMT's prospects in 2008 and Chiang emphasized that he and other party leaders have strongly encouraged Wang to serve as Ma's vice presidential running mate. Although Wang has not made his intentions clear, Chiang suggested that Wang may accept the position to improve his chances of stepping into the KMT presidential slot should Ma have to withdraw from the race as a result of his legal problems.

Ma Legal Problems Energizing KMT, For Now

13. (C) Chiang said that Ma's indictment has heightened the sense of urgency within the KMT and energized party supporters ahead of the legislative and presidential elections. Seeing the indictment as a politically-motivated

assault by the ruling Democratic Progressive Party (DPP), the KMT faithful have rallied more closely behind Ma. Ma's decision to "fight back" and his forceful response to the accusations, including the announcement of his candidacy despite the charges, has also helped dispel doubts that he is a strong leader. With Ma's case going to trial next month, Chiang predicted that a verdict could be reached as early as July or August. Most people on Taiwan believe Ma is "clean" and the trial will be a key test of the legal system's fairness and impartiality, Chiang suggested. In the unlikely event that Ma is found guilty, the KMT may modify its charter to allow Ma to remain the presidential candidate during the appeal process, but Ma may nevertheless decide to withdraw from the presidential race.

KMT Outlook for Legislative Elections

14. (C) Chiang predicted that the KMT will make significant gains and win an outright majority in the Legislative Yuan, eliminating its reliance on the smaller People First Party (PFP), which has pushed more radical policy positions. Chiang said he expects the KMT to win seats representing the outlying island districts, the east coast, and the Aborigine districts. The party will also do well in the heavily populated and urbanized north, but struggle in the rural south. The greatest "headache" for the KMT will be fielding only one pan-Blue candidate in each of the 73 geographic districts. Chiang explained that candidates who do not win the KMT primary nomination may choose to run as independents and split the Blue vote, improving the DPP's odds of winning. Since the KMT is no longer the ruling party, it has fewer resources at its disposal to dissuade primary runners-up from competing against their fellow party members. The PFP, with

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only 15 incumbent district legislators, will be fielding its own candidates but poses a minor challenge to the KMT. Chiang said he expects that the two sides will be able to use mediation and public opinion polling to field the strongest Blue candidate in most districts.

15. (C) Chiang told the Director that most people on Taiwan favor holding the presidential and legislative elections on the same day for the sake of convenience, simplicity, and frugality. Although he personally favors such an approach, the KMT is concerned that the DPP will tie a referendum on KMT party assets to the joint-election, hurting the KMT prospects. A combined election without a referendum, however, would favor the KMT because it could more effectively mobilize its extensive grassroots organizations to get out the vote.

CEC & Budget Battle

16. (C) Chiang said it was "difficult" to resolve the current impasse in the legislature over the Central Election Commission (CEC) reform bill because the CEC has the power to determine the date of the elections and referenda. The Director emphasized to Chiang the importance of passing a robust defense budget for Taiwan's security and urged the KMT to work with the DPP to resolve the legislative deadlock. Chiang replied that the KMT hopes to resolve the budget issue as soon as possible and noted that the compromise proposed by the DPP is a start, although DPP efforts to restore earlier defense cuts to the budget as a bargaining chip have prompted the PFP to oppose a compromise.

Lien Chan Visit to the PRC

17. (C) Chiang told the Director that KMT Honorary Chairman Lien Chan will focus on promoting cross-Strait economic exchanges during his April visit to the PRC, rather than working on a "peace agreement" as speculated in the press.

Chiang, who will accompany Lien, said the main purpose of the trip is to consolidate electoral support for the KMT among the Taiwan business community in China, promote Taiwan agricultural exports, and encourage Beijing to open up direct flights and PRC tourism to Taiwan. He noted that Lien will also participate in a "peace seminar" intended to start a dialogue with China to reduce tensions across the Taiwan Strait. Chiang added that to further improve cross-Strait relations each side needs to make some unilateral concessions, improve people-to-people exchanges, and open up a government-to-government dialogue.

KMT Economic Policies

18. (C) Chiang suggested that the challenge to Taiwan's future growth is not economic, but political. The KMT will pursue policies that promote cross-Strait peace, liberalize Taiwan's economy, especially in terms of cross-Strait trade and investment, and promote harmony between Taiwan's political parties if it returns to power in 2008. Chiang emphasized that the KMT would put economics above politics in contrast to the DPP, which promotes socially and politically polarizing issues, such as Taiwan identity, independence, and Constitutional reform.

Comment

19. (C) With Ma's indictment and resignation from the Chairmanship on February 14, the KMT is still struggling to put its own house in order and now faces a Chairman bi-election on April 7, as well presidential and legislative primaries later this spring. The Ma-Wang rivalry shows no sign of abating and it remains to be seen whether the two can put aside their past grievances to form a joint ticket for 2008 or reach some other accommodation. We will be watching closely the ramifications that future judicial rulings on the Ma and First Lady Wu Shu-chen cases could have on Taiwan's

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political system and the presidential race.
YOUNG